



## **CITY COUNCIL STAFF REPORT**

**MEETING DATE:** May 7, 2014

Agenda Item # 14

Prepared By:

*Kim Ryan*  
Finance Director

Submitted By:

*[Signature]*  
City Manager

### **CONTRACT REVISION FOR FINANCIAL ADVISORY FIRM FOR BOND ISSUES**

#### **RECOMMENDED ACTION:**

Adopt resolution approving revised contract with KNN Public Finance for financial advisory services for refunding and new-money bond issues backed by the Water Fund, Sewer Fund and all other funds except the successor agency to the redevelopment agency

#### **EXECUTIVE SUMMARY:**

On October 17, 2012 the City Council approved the selection of KNN Public Finance as the City's financial advisor for bond issues. KNN's original fee proposal for enterprise revenue bonds, such as water and sewer, was for \$50,000 plus an additional fee of \$5,000 for any refunding component. Since the Series 2014 water system revenue bond includes two refunding components--Series 1999 certificates of participation and Series 2004 water revenue bonds--the original fee proposal from KNN would have yielded a financial advisory fee of \$60,000 (\$50,000 base fee + \$5,000 + \$5,000 for the two refunding components).

Neither the City's original request for proposal nor KNN Public Finance's response to the RFP contemplated a private placement in lieu of traditional public offerings of City bonds. KNN points out that the financial advisory workload for a private placement is a little less than for a traditional public offering. Therefore, KNN has proposed to waive its \$5,000 fee for each of the two refunding components.

#### **FISCAL/RESOURCE IMPACT:**

The recommended contract revision would reduce by \$10,000 (from \$60,000 under the original contract formula, to \$50,000 under the proposed contract formula) the financial advisory fee to KNN Public Finance for the newly issued Series 2014 water system revenue bond via private placement. As always, the financial advisory fee is paid out of costs of issuance, which are included in the funding raised by the bond sale.

#### Attachment

Resolution, including contract with KNN Public Finance

**RESOLUTION NO. \_\_\_\_**

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF MORGAN HILL APPROVING, AND AUTHORIZING THE CITY MANAGER TO EXECUTE, THAT CERTAIN CONSULTANT AGREEMENT WITH KNN PUBLIC FINANCE, A DIVISION OF ZIONS FIRST NATIONAL BANK, FOR FINANCIAL ADVISORY SERVICES**

WHEREAS, on October 17, 2012, the City Council approved staff's recommendation to engage KNN Public Finance ("KNN"), a Division of Zions First National Bank, as financial advisor to the City with the planned issuance of refunding and new-money bonds and related matters; and

WHEREAS, KNN's fee proposal for enterprise revenue bonds, such as water and sewer, was for \$50,000 plus an additional fee of \$5,000 for any refunding component; and

WHEREAS, the Series 2014 water system revenue bond includes two refunding components—Series 1999 certificates of participation and Series 2004 water revenue bonds—the original fee proposal from KNN would thus have yielded a financial advisory fee of \$60,000; and

WHEREAS, neither the City's original request for proposal for financial advisory services nor KNN's response thereto contemplated a private placement in lieu of traditional public offerings of City bonds; and

WHEREAS, on April 2, 2014, the City Council approved the issuance of the Series 2014 water system revenue bond as a private placement with Capital One Public Funding, LLC, rather than the originally anticipated traditional public offering; and

WHEREAS, KNN has observed that the firm's financial advisory workload for a private placement is a little less than for a traditional public offering; and

WHEREAS, as a result, KNN has proposed to waive its \$5,000 fee for each of the two refunding components of the Series 2014 private placement, such that the total financial advisory fee for the Series 2014 transaction is \$50,000 rather than the full \$60,000 described to City Council back in October 2012; and

WHEREAS, the consideration by City Council of the adoption of this Resolution has been duly noticed pursuant to applicable laws and has been placed upon the City Council Meeting Agenda on the date set forth below, or to such date that the City Council may have continued or deferred consideration of this Resolution, and on such date the City Council conducted a duly noticed public meeting at which meeting the City Council provided members of the public an opportunity to comment and be heard and considered any and all testimony and other evidence provided in connection with the adoption of this Resolution; and

WHEREAS, the City Council determines that adoption of this Resolution is in the public interest.

NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF MORGAN HILL DOES HEREBY FIND, DETERMINE, RESOLVE AND ORDER AS FOLLOWS:

Section 1. Recitals. The City Council does hereby find, determine and resolve that all of the foregoing recitals are true and correct.

Section 2. Approval and Authorization. The City Council does further resolve, order and/or direct as follows:

- a. That the Consultant Agreement with KNN for financial advisory services substantially in the form attached hereto as Exhibit A and incorporated herein by this reference (the "Agreement") is hereby approved, including the heretofore undescribed financial advisory fee for a private placement in lieu of a traditional public offering.
- b. That the City Manager is hereby delegated authority to and is authorized and directed to execute the Consultant Agreement substantially in the form attached hereto as Exhibit A.

Section 3. This Resolution shall take effect immediately upon adoption.

**PASSED AND ADOPTED** by the City Council of the City of Morgan Hill at its meeting held on this 7<sup>th</sup> day of May 2014 by the following vote:

<b>AYES:</b>	<b>COUNCIL MEMBERS:</b>
<b>NOES:</b>	<b>COUNCIL MEMBERS:</b>
<b>ABSTAIN:</b>	<b>COUNCIL MEMBERS:</b>
<b>ABSENT:</b>	<b>COUNCIL MEMBERS:</b>

**ATTEST:**

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**IRMA TORREZ**  
City Clerk

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**STEVE TATE, Mayor**

∞ CERTIFICATION ∞

I, **Irma Torrez, City Clerk of the City of Morgan Hill, California**, do hereby certify that the foregoing is a true and correct copy of Resolution No. \_\_\_\_\_, adopted by the City Council at the meeting held on May 7, 2014.

**WITNESS MY HAND AND THE SEAL OF THE CITY OF MORGAN HILL.**

**DATE:** \_\_\_\_\_

\_\_\_\_\_  
**Irma Torrez, CITY CLERK**

**CONSULTANT AGREEMENT**  
**KNN PUBLIC FINANCE, A Division of Zions First National Bank**

**THIS AGREEMENT** is entered into and becomes effective on \_\_\_\_\_ (Effective Date), by and between the CITY OF MORGAN HILL, a municipal corporation, ("CITY"), and KNN PUBLIC FINANCE, A Division of Zions First National Bank, a California corporation ("CONSULTANT") hereinafter referred to collectively as "Parties." In consideration of the promises and the mutual covenants contained in this Agreement, the Parties agree as follows:

1. **City Authority.** This Agreement is entered into pursuant to action of the Morgan Hill City Council taken on \_\_\_\_\_, \_\_\_\_\_, 20\_\_\_\_.
2. **Term of Agreement.** This Agreement shall cover services rendered from the Effective Date of this Agreement until June 30, 2016 at which time CONSULTANT'S services shall be completed. The City Manager is authorized to extend the term of this Agreement for a maximum period of one year. Any such extension shall be in writing and signed by both Parties to this Agreement.
3. **Scope of Service.** The services to be performed by CONSULTANT shall be serve as financial advisor for refunding and new-money bond issues backed by the Water Fund, Sewer Fund, and other funds as further described in **Exhibit A.**
4. **Compensation.** CONSULTANT shall be compensated as follows:
  - 4.1. **Amount.** \$293,000.00. Total compensation under this Agreement shall not exceed two hundred ninety-three thousand and no/100 dollars and shall be billed based on the rate and basis set forth in **Exhibit B.**
  - 4.2. **Billing.** CONSULTANT shall provide CITY with a monthly invoice containing the dated, detailed, and itemized descriptions of all services performed and expenses incurred (if such expenses are reimbursable pursuant to Exhibit B) by CONSULTANT. Any rate charged shall be prorated where services are interrupted or not provided for any rate period (for example, any monthly rate charge should be prorated when services were interrupted or provided for only part of the month). For services billed on an hourly rate, the minimum unit of billed time shall not exceed one tenth of one hour. CITY shall pay for services and expenses (if so provided in Exhibit B) up to the limit of compensation set forth above, that in the CITY's judgment were necessary and reasonable.
5. **Termination.** CITY or CONSULTANT shall have the right to terminate this Agreement, without cause, by giving thirty (30) days' written notice or less under urgent circumstances. Upon such termination, CONSULTANT shall submit to CITY an itemized statement of services performed for which compensation has not been paid. CITY may require CONSULTANT to complete certain work product or documents and CONSULTANT shall deliver to CITY all documents in its possession without additional compensation to CONSULTANT.
6. **Performance of Work.** CONSULTANT represents that it is qualified by virtue of experience, training, education, and expertise to accomplish these services. Services shall be performed by CONSULTANT in accordance with professional practices in a manner consistent with a level of care, competence and skill exercised by qualified members of the CONSULTANT'S profession. By delivery of completed work, CONSULTANT certifies that the work conforms to the requirements of this Agreement and all applicable federal, state and local laws.



7. **Insurance Requirements.**

7.1. **Commencement of Work.** CONSULTANT shall not commence work under this Agreement until it has obtained CITY approved insurance. For general liability insurance policies, CONSULTANT shall provide CITY, prior to commencement of work, with a separate endorsement which states that the policy contains the following language:

- The CITY, its elected or appointed officials, boards, agencies, officers, agents, employees, and volunteers are named as additional insureds; and,
- the insurer waives the right of subrogation against CITY and CITY'S elected or appointed officials, boards, agencies, officers, agents, employees, and volunteers; and,
- insurance shall be primary non-contributing.

CONSULTANT shall furnish CITY with copies of all policies or certificates subject to this Agreement, whether new or modified, promptly upon receipt. No policy subject to this Agreement shall be canceled or materially changed except after thirty (30) days' notice by the insurer to CITY.

7.2. **Workers' Compensation Insurance.** CONSULTANT and all subcontractors shall maintain Workers' Compensation Insurance, as required by law.

7.3. **Insurance Types and Amounts.** CONSULTANT shall maintain comprehensive general liability insurance; professional errors and omissions liability insurance (required for professional and technical service consultants only); and automobile insurance each with policy limits of at least \$1,000,000 per occurrence for general liability, \$1,000,000 per accident for automobile liability and \$1,000,000 per claim for professional errors or omissions (for professional and technical service consultants only).

7.4. **Acceptability of Insurers.** All insurance required by this Agreement shall be carried only by responsible insurance companies licensed and admitted, or otherwise legally authorized to carry out insurance business, in California with a current A.M. Best's rating of no less than A:VII.

8. **Non-Liability of Officials and Employees of the CITY.** No official or employee of CITY shall be personally liable for any default or liability under this Agreement.

9. **Compliance with Law.** CONSULTANT and its officers, employees, agents, and subcontractors shall comply with all applicable laws, ordinances, administrative regulations, and permitting requirements in carrying out their obligations under this Agreement. CONSULTANT and its officers, employees, agents, and subcontractors covenant there shall be no discrimination based upon race, color, creed, religion, gender, marital status, age, sexual orientation, national origin, mental disability, physical disability, medical condition, or ancestry, in any activity pursuant to this Agreement.

10. **Independent Contractor.** CONSULTANT is an independent contractor and not an agent or employee of CITY.

11. **Confidentiality**. All data, documents, or other information received by CONSULTANT from CITY or prepared in connection with CONSULTANT'S services under this Agreement are deemed confidential and shall not be disclosed to any third party by CONSULTANT without prior written consent by CITY.

12. **Conflict of Interest and Reporting**. CONSULTANT shall at all times avoid conflict of interest or appearance of conflict of interest in performance of this Agreement.

13. **Notices**. All notices shall be personally delivered or mailed, via first class mail to the below listed address. These addresses shall be used for delivery of service of process. Notices shall be effective five (5) days after date of mailing, or upon date of personal delivery.

Address of CONSULTANT is as follows:

KNN Public Finance  
1300 Clay Street, Suite 1000  
Oakland, CA 94612

Address of CITY is as follows:

Finance Director	with a copy to:
City of Morgan Hill	City Clerk
17575 Peak Avenue	City of Morgan Hill
Morgan Hill, CA 95037	17575 Peak Avenue
	Morgan Hill, CA 95037

14. **Licenses, Permits and Fees**. CONSULTANT shall obtain a City of Morgan Hill Business License, all permits and licenses to the extent required by ordinances, codes and regulations of the federal, state and local government.

15. **Maintenance of Records**.

15.1. **Maintenance**. CONSULTANT shall prepare, maintain, and preserve all reports and records that may be required by federal, state, and CITY rules and ordinances related to services provided under this Agreement. CONSULTANT shall maintain records for a period of at least 3 years after receipt of final payment under this Agreement. If any litigation, claim, negotiation, audit exception, or other action relating to this Agreement is pending at the end of the 3 year period, then CONSULTANT shall retain said records until such action is resolved.

15.2. **Access to and Audit of Records**. The CITY shall have the right to examine, monitor and audit all records, documents, conditions, and activities of the CONSULTANT and its subcontractors related to services under this Agreement. Pursuant to Government Code Section 8546.7, if this Agreement involves the expenditure of public funds in excess of \$10,000, the Parties to this Agreement may be subject, at the request of the CITY or as part of any audit of the CITY, to the examination and audit of the State Auditor pertaining to matters connected with the performance of this Agreement for a period of three years after final payment under the Agreement.

15.3. **Ownership of Work Product**. All documents or other information developed or received by CONSULTANT for work performed under this Agreement shall be the property of CITY.

CONSULTANT shall provide CITY with copies of these items upon demand or upon termination of this Agreement.

16. **Familiarity with Work.** By executing this Agreement, CONSULTANT represents that: (1) it has investigated the work to be performed; (2) it has investigated the site of the work and is aware of all conditions there; and (3) it understands the difficulties and restrictions of the work under this Agreement. Should CONSULTANT discover any conditions materially differing from those inherent in the work or as represented by CITY, it shall immediately inform CITY and shall not proceed, except at CONSULTANT'S risk, until written instructions are received from CITY.

17. **Time of Essence.** Time is of the essence in the performance of this Agreement.

18. **No Assignment.** Neither this Agreement nor any portion shall be assigned by CONSULTANT, without prior written consent of CITY.

19. **Attorney Fees.** In any legal action, dispute or arbitration arising out of or relating to this Agreement, the prevailing party shall be entitled to an award of its reasonable attorney fees, costs and expenses incurred.

20. **Defense and Indemnification.**

20.1. **Defense and Indemnification.** CONSULTANT shall, to the fullest extent permitted by law, indemnify, defend and hold harmless CITY, its elected or appointed officials, boards, agencies, officers, agents, employees, and volunteers ("INDEMNITEES") from and against any and all claims, liabilities, expenses, liens, or damages of any nature, including liability for bodily injury, property damage or personal injury, and including reasonable attorneys' fees and expenses, that arise out of, pertain to, or relate to the performance of this Agreement or the failure to comply with any obligations contained in this Agreement by CONSULTANT, and/or its agents, officers, employees, subcontractors, or independent contractors ("CLAIM").

20.2. **Exceptions.** CONSULTANT is not required to indemnify INDEMNITEES against liability for bodily injury, property damage or personal injury, or any other loss, damage or expense arising from the sole negligence or willful misconduct of the CITY.

20.3. **Not limited by insurance.** The indemnity, defense and hold harmless provisions of this Agreement apply to all CLAIMs alleged against an INDEMNITEE, regardless of whether any insurance policies are applicable. Policy limits do not act as a limitation upon the amount of indemnification or defense to be provided by CONSULTANT.

20.4. **Right to Offset.** CITY shall have the right to offset against any compensation due CONSULTANT under this Agreement any amount due CITY from CONSULTANT as a result of CONSULTANT's failure to pay CITY promptly any indemnification arising under this Section (20) and any amount due CITY from CONSULTANT arising from CONSULTANT's failure either to (i) pay taxes on amounts received pursuant to this Agreement or (ii) comply with applicable workers' compensation laws.

20.5. **Interpretation.** This Section shall constitute an agreement or contract of indemnity, incorporating the interpretations under California Civil Code Section 2778. It is expressly understood and agreed that the obligation of the CONSULTANT to indemnify the INDEMNITEE shall be as broad and inclusive as permitted by the laws of the State of California and shall survive termination of this Agreement.



21. **Modification.** This Agreement constitutes the entire Agreement between the Parties and supersedes any previous agreements, oral or written. This Agreement may be modified or provisions waived only by subsequent mutual written Agreement executed by CITY and CONSULTANT.

22. **Governing Law and Venue.** This Agreement shall be construed in accordance with the laws of the State of California. This Agreement was entered into and is to be performed in the County of Santa Clara. Any action or dispute arising out of this Agreement shall only be brought in Santa Clara County.

23. **Interpretation.** This Agreement is a negotiated document and shall be deemed to have been drafted jointly by the Parties, and no rule of construction or interpretation shall apply against any particular Party based on a contention that the Agreement was drafted by one of the Parties including, but not limited to, California Civil Code § 1654, the provisions of which are hereby waived. This Agreement shall be construed and interpreted in a neutral manner.

24. **Preservation of Agreement.** If any term, provision, covenant, or condition of this Agreement is held by a court of competent jurisdiction to be invalid or unenforceable, the rest of the Agreement shall remain in full force and effect and shall in no way be affected or invalidated.

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25. **Authority to Execute.** Those individuals who are signing this Agreement on behalf of entities represent and warrant that they are, respectively, duly authorized to sign on behalf of the entities and to bind the entities fully to each and all of the obligations set forth in this Agreement.

**IN WITNESS THEREOF**, these Parties have executed this Agreement on the day and year shown below.

AS SET FORTH IN CA. CORP. CODE § 313, TWO SIGNATURES ARE REQUIRED FOR CALIFORNIA CORPORATIONS:

(1) CHAIRPERSON OF THE BOARD, PRESIDENT, OR VICE PRESIDENT; AND

(2) SECRETARY, ASSISTANT SECRETARY, CHIEF FINANCIAL OFFICER OR ASSISTANT TREASURER.

ATTEST:

CITY OF MORGAN HILL

\_\_\_\_\_  
City Clerk/Deputy City Clerk

\_\_\_\_\_  
City Manager

\_\_\_\_\_  
Michelle Wilson

\_\_\_\_\_  
Print Name

\_\_\_\_\_  
Steve Rymer

\_\_\_\_\_  
Print Name

Date: \_\_\_\_\_

Date: \_\_\_\_\_

APPROVED AS TO FORM:

KNN Public Finance, A Division of Zions First  
National Bank

\_\_\_\_\_  
City Attorney

\_\_\_\_\_  
By:

\_\_\_\_\_  
Renee Gurza

\_\_\_\_\_  
Print Name

\_\_\_\_\_  
Title:

\_\_\_\_\_  
Print Name and Title of Signer.

If Corporate: Chairman, President or  
Vice President

Date: \_\_\_\_\_

Date: \_\_\_\_\_

\_\_\_\_\_  
By:

\_\_\_\_\_  
Title:

\_\_\_\_\_  
Print Name and Title of Signer.

If Corporate: Secretary, Assistant  
Secretary, Chief Financial Officer or  
Assistant Treasurer

Date: \_\_\_\_\_



## EXHIBIT A SCOPE OF SERVICES

1. Review the overall financial status of the Water and Wastewater Funds and review for appropriate financial policies

In familiarizing ourselves with the City of Morgan Hill, we would undertake a thorough review of the City's financial reports, prior bond documents, capital plan, and other resource materials. We would review your current financial management practices, using the Standard & Poor's checklist as a review template.

2. Manage competitive or negotiated sales process including analyzing bids, reviewing spreads, analyzing market levels, and clarifying syndicated roles with selected underwriter(s).

Our practice includes both negotiated and competitive sales, and we are equally comfortable in both formats. A number of factors go into informing our recommendations as to the appropriate method of sale. Some of these factors will be very specific to your credit, the bond structure and the bond market at the time. Others may relate more specifically to your organizational culture and tradition. We can help you objectively weigh the risks and benefits of both approaches.

KNN's primary bond sizing and structuring software is the complete and most current DBC Finance package. This package is the most sophisticated available in the industry, used by the largest underwriters, and allows us the capability to structure bond issues from the most common to the most complicated. Because analysis is only as good as the information upon which it is based, we have invested significantly in our market resources. Our most important technology-based resources are our subscriptions to Bloomberg and the Thomson Municipal Market Monitor services (TM3), which include a complete data-base of current municipal, treasury, swap and LIBOR market data, a library of virtually all prior municipal transactions, information on secondary market trades, and the daily Municipal Market Data (MMD) national, state specific and sector pricing scales. We spend over \$70,000 a year on these data services.

3. Assist and advise in evaluating opportunities to refinance and restructure outstanding debt.

Reviewing the outstanding debt portfolio is a standard responsibility of a financial advisor. We load all of our clients' outstanding debt into a DBC module, so that we can quickly assess its refunding opportunities. As part of our analysis in preparing this proposal, we created a "debt map" of the City's outstanding debt, which appears as Appendix D. Not only is the debt map useful in reviewing the "shape" of the outstanding debt service, but is a useful reference and reminder of potential refunding opportunities.

Recognizing that a call option has value, and can only be exercised once, we help our clients responsibly manage their refunding opportunities. Although the current industry norm is to achieve 3% savings on a refunding, we often recommend a higher threshold to more fully capture the value of a call option. We review all savings analysis on a "net savings" basis, taking into account both any reserve fund savings and arbitrage rebate liability. In the current interest rate environment, we would discuss with the client the appropriate interest rate assumptions relative to such analysis, i.e., what should be assumed as the earnings rate on the existing reserve fund.

## **EXHIBIT A SCOPE OF SERVICES**

4. Evaluate and advise on the use of complex debt structures, including various derivative and swap products.

As a general principal we believe that a client's interests are usually best served by a simple and straightforward financing. That being said, KNN has been on the cutting edge when circumstances have justified and where innovation has best met our client's needs.

In spite of Dodd-Frank, the derivatives market remains relatively expensive and opaque. We can assist the City in identifying the risks associated with the use of any derivative structure and through the use of alternative and sensitivity analyses evaluate the potential cost/benefit under different structures. We would generally propose working with a swap advisor who could assist in the bidding of such derivative product should there be a decision to proceed.

5. Assist in negotiating contracts, such as swaps and investment agreements.

Unlike other financial advisory firms that leverage their financial advisory fees through swap and investment fees, KNN is not a GIC/investment broker, and subcontracts swap pricing to independent consultants. Although these additional services have been a very lucrative business line for many firms, we have made the strategic decision to devote our resources to structuring the bond transaction itself avoiding what we feel are the inherent conflicts of interest in cross-selling products.

We do assist our clients, however, in the review of terms for any investment agreement, evaluating bids and reviewing investment documents. For instance, we make sure our clients consider the terms associated with termination of the investment contract as a result of refunding or downgrade of the provider.

6. Assist staff in reviewing RFPs in the selection of underwriting teams.

Since the market upheaval in 2008, the tendency to issue bonds through a negotiated sale has certainly increased, although we have had a number of very successful competitive sales since that time. When a client is pursuing a negotiated sale, we typically develop an RFP for underwriters, review it with the client, work with them to identify the universe of underwriters that will be solicited and develop a matrix summarizing the responses to be used as a basis for evaluation. In general, we prefer to target the RFP to a particular project and to use it as a vehicle for the underwriters to demonstrate their creativity and analysis of any challenges associated with the transaction. We also like to use the RFP process as an opportunity to identify the proposed takedowns and pricing rationale to provide us with a framework for negotiation at the time of the actual pricing. By requiring the firms to submit a spread to MMD (the Municipal Market Data index) and the rationale and comparable sales for that spread, we lay the framework for the transaction pricing and help ensure that the proposer is not merely "low-balling" for the purposes of securing the transaction.

Similarly, we can typically assist the City in solicitation and selection of other financing team members if there are not ongoing relationships, such as bond counsel or disclosure counsel, trustee, feasibility consultants and other specialized consultants.

7. Assist the City in preparation for any presentation before rating agencies  
As one of the most active financial advisors in the State, we have continual contact with the rating



## **EXHIBIT A SCOPE OF SERVICES**

agencies, meeting with them in person or by phone at least once a week. We have helped hundreds of clients prepare successful rating presentations to all the major agencies, and have helped obtain numerous rating upgrades.

KNN has a unique inside view of the ratings process through the eyes of David Brodsky, from his 5 ½ years as a senior credit officer and rating committee member at Moody's Investors Service. His intimate familiarity with rating criteria, comparative standards, and the inside working of rating committees provides an unmatched advantage for ensuring the best ratings for our clients and the smoothest rating process. He headed Moody's California water and sewer ratings activity while at Moody's.

Similarly, we have continual contact with the major financial institutions that provide credit and liquidity enhancement. We work closely with the credit enhancers to ensure they fully understand the client's credit profile, and we negotiate with them on the key elements of the deal that drive their decision-making process.

### **8. Review of legal documentation including closing documents and transcripts.**

KNN staff members become intimately involved in the preparation of legal and disclosure documents for every deal on which we work, carefully reviewing all documents to make sure they best meet the client's interests and the plan of finance. We take special effort to highlight the key policy and business implications of the legal documents, so that the client can make informed decisions.

As a firm, we are particularly focused on helping clients meet their disclosure requirements. We have taken the lead in preparation of the core disclosure ("Appendix A") for several of our clients, including the City of Los Angeles. Even when a client hires disclosure counsel, we take an active role in the review of the official statement. We thoroughly review any "canned" language to make sure it properly characterizes the current facts and circumstances of a given issuer, undertake due diligence of disclosure facts, and draft accurate updates of evolving disclosures items. Difficult disclosure questions are brought before an in-house committee to ensure that the issue is fully vetted among senior KNN staff. In the wake of experiences like that of the City of San Diego regarding bond disclosure, we believe that it is in our clients' best personal and professional interest to maintain the highest standards of disclosure.

### **9. Participate in meetings, as requested, relating to the issuance of bonds or notes.**

While it has become commonplace to hold "meetings" by conference call, if the City prefers we can participate in meetings at your offices on short notice given your location less than 90 minutes away from our offices and homes. One of the reasons we use a team model of staffing is to ensure that more than one financial advisor is knowledgeable about the City and can be readily available according to your scheduling needs.

**EXHIBIT B  
SCHEDULE OF COMPENSATION RATES**

This fee must include any and all fees that will be required in connection with the outlined scope of services. The response should specify the basis upon which your fees will be calculated, expenses for which you would expect reimbursement, whether you would charge for travel time, the scope of services to be provided for your quoted fees and any other bond or tax counsel services that are not included in your fee proposal.

On occasion, the City may seek advice on an as-needed basis. Please provide your firm's proposed hourly rates for services.

**FEES**

We note that your selection process is expected to give significant weight (30%) to the fees proposed for services. As highlighted in our proposal, several of the projects for which you are seeking assistance may prove very complicated, and require a great deal of effort to meet your needs and our standards. While we do not strive to be the low cost provider of service, and prefer to work in environments where the emphasis is on doing the job thoroughly to high standards, we also strive to be cost-efficient and competitive, and have found that we can always settle on a level of fees that is mutually acceptable.

We further note that it is not clear what resources would be used to pay for work on the redevelopment bonds. We assume that this work would be financed out of tax increment. To the extent these fees cannot be construed as part of your ROP or otherwise financed, we would consider readjusting our fees in aggregate to reduce any impact on the general fund.

**RDA Letter-of-Credit**

Given the uncertainty of the time and challenges that will be involved, we recommend that this project be billed on an hourly basis at the rates indicated below. We propose the following not-to-exceed amounts for this work.

<b>TASK</b>	<b>NOT TO EXCEED</b>
Tax Allocation Bond Letter-of-Credit Extension	\$18,000
Tax Allocation Bond LOC Replacement	\$30,000

**Transaction Fees**

The following are our proposed fixed fees for various transactions. These fees assume closing within six months of first meeting, and would be contingent on closing.

<b>PROJECT</b>	<b>FEE RANGE</b>
TAB Refunding	\$65,000
Enterprise Revenue Bonds	\$50,000 (1)
Pension Side Fund Refunding	\$25,000 - \$45,000 (2)
Land Secured / Mello-Roos (excluding formation)	\$50,000 - \$70,000

- (1) Additional fee of \$5,000 for any refunding component, except for private placement.
- (2) Fee level depends on final scope of work: e.g., analysis of alternatives, solicitation of private placements, or public offering.

**EXHIBIT B  
SCHEDULE OF COMPENSATION RATES**

**Hourly Rates**

The following represent our standard hourly charges, which are usually used in connection with non-transaction and pre-transaction projects. We would be willing to negotiate not-to-exceed limits on specific assignments. We do not charge for travel time.

<b>TITLE</b>	<b>HOURLY FEE</b>
Managing Director	\$325
Vice President	\$290
AVP/Senior Associate	\$225
Associate	\$175
Analyst	\$150

**Expenses**

We would seek reimbursement only for out of pocket expenses, in addition to our fee, including conference calls, any overnight delivery costs, color copying, any charges for outside copying, out of state travel, and \$550 for outside sources of data, such as Bloomberg and TM3. We would be willing to cap expenses at \$3,000 per transaction.